FEDERAL PUBLIC SERVICE COMMISSION

COMPETITIVE EXAMINATION-2024 FOR RECRUITMENT

TO POSTS IN BS-17 UNDER THE FEDERAL GOVERNMENT

ECONOMICS PAPER-I

TIME ALLOWED: THREE HOURS	PART-I (MCQS)	MAXIMUM MARKS = 20
PART-I(MCQS): MAXIMUM 30 MINUTES	PART-II	MAXIMUM MARKS = 80

NOTE: (i) Part-II is to be attempted on the separate **Answer Book.**
(ii) Attempt **ONLY FOUR** questions from **PART-II. ALL** questions carry **EQUAL** marks.
(iii) All the parts (if any) of each Question must be attempted at one place instead of at different places.
(iv) Candidate must write Q. No. in the Answer Book in accordance with Q. No. in the Q. Paper.
(v) No Page/Space be left blank between the answers. All the blank pages of Answer Book must be crossed.
(vi) Extra attempt of any question or any part of the attempted question will not be considered.

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Roll Number

ECONOMICS, PAPER-I

TIME ALLOWED: THREE HOURS | (PART-I MCQs) MAXIMUM MARKS: 20
PART-I (MCQs) : MAXIMUM 30 MINUTES | (PART-II) MAXIMUM MARKS: 80

NOTE: (i) First attempt PART-I (MCQs) on separate OMR Answer Sheet which shall be taken back after 30 minutes.
(ii) Overwriting/cutting of the options/answers will not be given credit.
(iii) There is **no negative** marking. All MCQs must be attempted.

PART-I (MCQs)(COMPULSORY)

Q.1. (i) Select the best option/answer and fill in the appropriate Box ■ on the **OMR Answer Sheet.**(20x1=20)
(ii) Answers given anywhere else, other than OMR Answer Sheet, will not be considered.

1. There are strong theoretical reasons to expect that changes in wealth are responsible for changes in consumption. Nonetheless, one reason that we observe a tight link between consumption and disposable income is:
   (A) Credit rationing which changes the intertemporal budget constraint for borrowers.
   (B) Households attempt to smooth their consumption.
   (C) Household saving provides a buffer between income and expenditure. (D) Ricardian equivalence.

2. The accelerator principle states:
   (A) If an increase in the growth of output is expected, investment will increase.
   (B) If an increase in investment is expected, output will increase.
   (C) If an increase in the growth of investment is expected, output will increase.
   (D) Small swings in investment are associated with large swings of output.

3. The optimal capital stock is achieved when the user cost of capital is equal to:
   (A) The interest rate.   (B) The depreciation rate.
   (C) The marginal product of capital.   (D) Tobin's q.

4. A supply side vicious circle of poverty suggests that poor nations remain poor because:
   (A) Saving remains low   (B) Investment remains low
   (C) There is a lack of effective government   (D) Both (A) & (B)

5. Which of the following is not typically an element in the structural change that accompanies development?
   (A) Increase in the share of agriculture in GDP (gross domestic product)
   (B) Increase in manufacturing as a share of GDP (C) Increase in urbanization   (D) All of these

6. The essence of Engel's law is that as family income rise:
   (A) The savings rate increases   (B) The proportion of income spent on food declines
   (C) Expenditure on food declines   (D) Proportion of income spent on luxuries declines

7. Economic growth measures the:
   (A) Growth of productivity   (B) Increase in nominal income
   (C) Increase in output   (D) None of these

8. Non-traded goods do not enter measured GDP because:
   (A) They are intermediate goods   (B) They are not traded in the market
   (C) There is no value added in the production of such goods
   (D) Their value is not captured by the exchange rate method of conversion to a common unit

9. The concept of opportunity cost is based upon the principle of:
   (A) Need   (B) Consumption   (C) Scarcity   (D) Profit

10. Which of the following is an INCORRECT statement about a budget constraint?
    (A) Points on a budget constraint represent combinations of the goods that exactly use up income
    (B) Points within the budget constraint represent combinations of the goods that do not use up all the income.
    (C) If points A and B lie on the budget constraint, we can deduce that people will be indifferent between the two
    (D) If the price of one good decreases, all else the same, the budget constraint will swivel or rotate outward

11. When the manufacturer of power looms expands, there are forward linkage effects due to:
    (A) Lost employment in the hand-loom sector   (B) Increased incomes of workers that manufacture looms
    (C) Increased output of woven cloth made by the power looms   (D) Increased demand for electric motors

12. The Keynesian assumption is a convenient analytical short cut and turns out to be a rather accu... description of the reality. What does it assume?
    (A) Constant prices   (B) Firms cannot reduce fix costs
    (C) Output is predetermined   (D) The interest rate stimulates growth

13. What is not a component of the GDP?
    (A) Consumption goods   (B) Investment spending by firms on capital goods
    (C) Public sector's own demand for goods   (D) Employment rate

PART-II

Q2. Why do economists use the ceteris paribus assumption? Many changes are &fleeting the market for oil. Predict how each of the following events will affect the equilibrium price and quantity in the market for oil. In each ease. state how the event will affect the supply and demand diagram. Create a sketch of the diagram if necessary.

- Cars arc becoming more fuel efficient and therefore get mots; miles to the gallon.
- landlords install additional insulation in buildings.
- The price of solar energy falls dramatically

Q3. What is the Consumer Price Wert (CPI)? How is it constructed and how do: it measure inflation? Why is it so important to so many people in Pakistan today? What are some of its weaknesses?

Q4. How does the existence of money simplify the process of buying and selling? What is the double-coincidence of wants? State and explain the concept of the money multiplier.

Q5. Which kind of monetary policy would you expect in response to high inflation: expansionary or contractionary? Why? How might each of the following factors complicate the implementation of monetary policy: long and variable la, excess, reserves, and movements in velocity?

Q6. How Can an unexpected fall in exchange rates injure the financial health of a nation's banks What is the difference between a floating exchange rate, a soft peg, a hard peg, and dollarization?

Q7. What do you understand economic development to mean? Given the diversity of developing countries. do you think that there could ever be a single, unified theory of development? Explain your answer.

Q8. Write short notes on any two of the following:

- Possibilities of export promotion in developing nations
- Demographic transition
- Environmental Sustainability with special reference to developing countries